

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name SARANAC PUBLIC LIBRARY	County IONIA
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date OCTOBER 23, 2006	Date Audit Report Submitted to State JANUARY 18, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures..
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Karl L. Drake, CPA		Telephone Number 517-937-9333		
Street Address 3775 Kimmel Road		City Horton	State MI	Zip 49246
Authorizing CPA Signature 		Printed Name Karl L. Drake		License Number 1101016526

SARANAC PUBLIC LIBRARY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

SARANAC PUBLIC LIBRARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saranac Public Library
Saranac, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Saranac Public Library, as of and for the year ended September 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Saranac Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Saranac Public Library as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of Saranac Public Library's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 22 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Directors
Saranac Public Library

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saranac Public Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

October 23, 2006

This section of Saranac Public Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year ended September 30, 2006. It is best read in conjunction with the Library's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Saranac Public Library financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the entire Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund
(Required Supplemental Information)

Other Supplemental Information

Reporting The Library As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Library is, "As a whole, what is the Library's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services, including resources and community enrichment. Property taxes and Penal Fines finance most of these activities.

Reporting The Library's Most Significant Funds - Fund Financial Statements

The Library's fund financial statements provide detailed information about the most significant funds - not the Library as a whole. Some funds are required to be established by State law and by bond covenants. However, the Library establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental Funds - All of the Library's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

The Library As A Whole

The statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of September 30, 2006:

TABLE 1	Governmental Activities (In Thousands)
ASSETS	
Current and other assets	\$ 793.7
Capital assets - Net of accumulated depreciation	<u>89.8</u>
TOTAL ASSETS	<u>883.5</u>
LIABILITIES	
Current liabilities	21.8
Long-term liabilities	<u>0.8</u>
TOTAL LIABILITIES	<u>22.6</u>
NET ASSETS	
Invested in property and equipment - Net of related debt	89.8
Restricted	0.0
Unrestricted	<u>771.1</u>
TOTAL NET ASSETS	<u>\$ 860.9</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Library's governmental activities is discussed below. The Library's net assets were \$860.9 thousand at September 30, 2006. Capital assets, net of related debt totaling \$89.8 thousand compares the original cost, less depreciation of the Library's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Library's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$771.1 thousand) was unrestricted.

The \$771.1 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2006	2005
REVENUE		
Program Revenue		
Penal Fines	\$ 83.0	\$ 65.6
Grants and categoricals	0.0	0.0
General Revenue		
Property taxes	238.8	221.4
State Aid	6.5	7.8
Other	122.2	22.9
TOTAL REVENUE	\$ 450.5	\$ 317.7
FUNCTION/PROGRAM EXPENSES		
General Government	\$ ---	\$ ---
Public Safety	---	---
Roads	---	---
Community Enrichment	259.5	243.7
Depreciation (unallocated)	5.4	4.5
TOTAL FUNCTION/PROGRAM EXPENSES	264.9	248.2
INCREASE IN NET ASSETS	\$ 185.6	\$ 69.5

As reported in the statement of activities, the cost of all of our governmental activities this year was \$264.9 thousand. Certain activities were partially funded from those who benefited from the programs (\$83.0 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of our governmental activities was paid for with \$238.8 thousand in taxes, \$6.5 thousand in State Aid, and with our other revenues, such as interest and general entitlements.

The Library As A Whole (Continued)

The Library experienced an increase in net assets of \$185.6 thousand. The key reason for the change in net assets was a large estate donation and conservative expenditures. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Library's taxpayers by each of these functions. Since property taxes for operations and Penal Fines constitute the vast majority of the Library's operating revenue sources, the Board of Directors must annually evaluate the needs of the Library and balance those needs with available unrestricted resources.

The Library's Funds

As we noted earlier, the Library uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental funds reported a combined fund balance of \$771.9 thousand, which is an increase of \$186.9 thousand from last year. The primary reasons for the increase are a large estate donation and conservative expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$186,961 to \$771,934, which is greater than the budgeted increase of \$0.

General Fund Budgetary Highlights

Over the course of the year, the Library amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the Library's 2006-07 fiscal year budget. The Saranac branch will be remodeled and expanded resulting in costs exceeding \$225,000. Interest rates on the Library's savings accounts should increase slightly, providing slightly higher interest revenues. The Library's taxable value will be higher, increasing the property tax revenues. Other expenditures will be very consistent with last year.

Capital Asset And Debt Administration

Capital Asset

At September 30, 2006, the Library had \$89.8 thousand invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$1,153 or 1 percent, from last year.

	<u>2006</u>	<u>2005</u>
Buildings	\$ 36,072	\$ 36,072
Improvements	73,496	73,496
Vehicles	---	---
Equipment	<u>4,235</u>	<u>---</u>
Total Capital Assets	<u>113,803</u>	<u>109,568</u>
Less Accumulated Depreciation	<u>23,967</u>	<u>18,579</u>
Net Capital Assets	<u>\$ 89,836</u>	<u>\$ 90,989</u>

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Contacting The Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors and creditors of Saranac Public Library with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library Manager, 61 Bridge Street, P.O. Box 27, Saranac, Michigan 48881.

SARANAC PUBLIC LIBRARY

Government-Wide Financial

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	Governmental Activities
ASSETS	
Current Assets	
Cash	\$ 692,116
Investments	101,601
Accounts Receivable	---
Prepaid Expenditures	---
Total Current Assets	<u>793,717</u>
Non-Current Assets	
Capital Assets	113,803
Less: Accumulated Depreciation	<u>-23,967</u>
Total Non-Current Assets	<u>89,836</u>
TOTAL ASSETS	<u>\$ 883,553</u>
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 21,783
Accrued Salaries and Expenses	---
Accrued Interest	---
Deferred Revenue	---
Total Current Liabilities	<u>21,783</u>
Non-Current Liabilities	
Bonds Payable	---
Compensated Absences and Severance Pay	<u>867</u>
Total Non-Current Liabilities	<u>867</u>
TOTAL LIABILITIES	<u>22,650</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	89,836
Restricted for Debt Service	---
Unrestricted	<u>771,067</u>
TOTAL NET ASSETS	<u>860,903</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 883,553</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	---	---	---	---
Roads	---	---	---	---
Community Enrichment	259,468	83,030	---	-176,438
Interest on Long-Term Debt	---	---	---	---
Depreciation (Unallocated)	<u>5,388</u>	<u>---</u>	<u>---</u>	<u>-5,388</u>
Total Governmental Activities	<u>\$ 264,856</u>	<u>\$ 83,030</u>	<u>\$ ---</u>	<u>\$ -181,826</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 238,797
Property Taxes, Levied for Debt Service				---
State of Michigan Aid, Unrestricted				6,459
Interest Earnings				16,226
Other				<u>105,964</u>
Total General Revenue				<u>367,446</u>
CHANGE IN NET ASSETS				185,620
NET ASSETS - BEGINNING OF YEAR				<u>675,283</u>
NET ASSETS - END OF YEAR				<u><u>\$ 860,903</u></u>

See Accompanying Notes to Financial Statements.

SARANAC PUBLIC LIBRARY

Fund Financial

GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2006

	General	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 793,717	\$ ---	\$ 793,717
Accounts Receivable	---	---	---
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	---	---
Inventories	---	---	---
Prepaid Expenditures	---	---	---
TOTAL ASSETS	\$ 793,717	\$ ---	\$ 793,717
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 21,783	\$ ---	\$ 21,783
Accrued Salaries and Withholdings	---	---	---
Due to Other Funds	---	---	---
Deferred Revenue	---	---	---
TOTAL LIABILITIES	21,783	---	21,783
FUND BALANCES			
Reserved for Inventories	---	---	---
Reserved for Future Purchases	5,000	---	5,000
Unreserved and Undesignated	766,934	---	766,934
TOTAL FUND BALANCES	771,934	---	771,934
TOTAL LIABILITIES AND FUND BALANCES	\$ 793,717	\$ ---	\$ 793,717
TOTAL GOVERNMENTAL FUND BALANCES			\$ 771,934
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets is			113,803
Accumulated Depreciation is			<u>-23,967</u>
			89,836
- Long-term Liabilities are not due and payable in the current period and are not reported in the fund			
Bonds Payable			---
Compensated absences			<u>-867</u>

- Accrued interest is not included as a liability in governmental funds			<u>---</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 860,903

See Accompanying Notes to Financial Statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES

YEAR ENDED SEPTEMBER 30, 2006

	General	Other Funds	Totals
REVENUE			
Property Taxes	\$ 238,797	\$ ---	\$ 238,797
State Grants	6,459	---	6,459
Penal Fines	83,030	---	83,030
Investment	16,226	---	16,226
Other	105,964	---	105,964
TOTAL REVENUE	450,476	---	450,476
EXPENDITURES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreational and Cultural	254,192	---	254,192
Debt Service	---	---	---
Capital Outlay	9,323	---	9,323
TOTAL EXPENDITURES	263,515	---	263,515
EXCESS OF REVENUE OVER EXPENDITURES	186,961	---	186,961
OTHER FINANCING SOURCES			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
NET CHANGE IN FUND BALANCES	186,961	---	186,961
FUND BALANCES - BEGINNING OF YEAR	584,973	---	584,973
FUND BALANCES - END OF YEAR	\$ 771,934	\$ ---	\$ 771,934

See Accompanying Notes to Financial Statements.

SARANAC PUBLIC LIBRARY

Fund Financial

GOVERNMENTAL FUNDS RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 186,961
---	-------------------

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	\$ -5,388	
Capital Outlay	<u>4,235</u>	
		<u>-1,153</u>

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid
-

- Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)
-

- Uncollected property tax revenue is deferred in the governmental funds, but not in the statement of activities
-

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds
- 188

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 185,620</u>
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Library is a component unit of the Village of Saranac. The Library has two branches, one in Saranac and one in Clarksville. The Library Board has seven members, five appointed by the Village of Saranac and two appointed by the Village of Clarksville.

B. BASIS OF PRESENTATION**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

B. BASIS OF PRESENTATION (CONTINUED)

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Library for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Ionia County assesses millage for library operations. The various libraries in the County receive property tax revenues based on the libraries that they serve. Saranac Public Library receives 100% of the library revenue collected from Boston Township and Campbell Township, and 50% of the library revenue from Keene Township and Berlin Township. Total property tax revenues for the year ended September 30, 2006, were \$238,797.

E. CASH EQUIVALENTS

The Library considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Library does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15-50 years
Vehicles	5-20 years
Other equipment	5-20 years

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

J. LONG-TERM OBLIGATIONS (CONTINUED)

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at September 30, 2006.

NOTE 3 - DUE TO/FROM OTHER FUNDS

There were no due to/due from at September 30, 2006.

NOTE 4 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended September 30, 2006, the Library incurred no expenditures that were in excess of the amounts budgeted.

NOTE 5 - RETIREMENT PLAN

Effective October 1, 2005, the Library has adopted a SEP plan for employees to contribute into a retirement plan, and a 403(b) plan for Library contributions for the employees. Total contributions for the year ended September 30, 2006 were \$2,624.

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS:

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Library, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library is in compliance with State law regarding their cash deposits.

The Library maintains all of its cash deposits at four banks and two investment companies.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC and SIPC)	\$ 343,832	\$ 346,727
Uninsured & Uncollateralized	348,284	371,435
Total Deposits	<u>\$ 692,116</u>	<u>\$ 718,162</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

SARANAC PUBLIC LIBRARY

Notes To Financial Statements

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the Library's Governmental activities was as follows:

	Balance October 1, 2005	Additions	Disposals and Adjustments	Balance September 30, 2006
Capital assets being depreciated:				
Buildings	\$ 36,072	\$ ---	\$ ---	\$ 36,072
Improvements	73,496	---	---	73,496
Vehicles	---	---	---	---
Equipment	---	4,235	---	4,235
Subtotal	109,568	4,235	---	113,803
Accumulated depreciation:				
Buildings	1,072	---	---	1,072
Improvements	17,507	4,541	---	22,048
Vehicles	---	---	---	---
Equipment	---	847	---	847
Subtotal	18,579	5,388	---	23,967
Net capital assets	\$ 90,989	\$ -1,153	\$ ---	\$ 89,836

Depreciation expense was not charged to activities as the Library considers its assets to impact multiple activities and allocation is not practical.

NOTE 8 - INVESTMENTS

Investments consist of mutual funds and are valued at market value at September 30, 2006.

NOTE 9 - RISK MANAGEMENT AND LITIGATION

The Library is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Library has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At September 30, 2006, no claims exist, and no provision has been entered into the accounting records.

NOTE 10 - FUND BALANCE RESTRICTIONS

\$5,000 of fund balance is restricted for future purchases based on a donor restriction.

NOTE 11 - CONTRACTS

The Library is working under an agreement to provide management services for the Village of Clarksville Library and to also add representatives, appointed by the Village of Clarksville, to its Board of Directors.

NOTE 12 - SUBSEQUENT EVENT

The Library has entered into an agreement for expansion and remodeling of its Saranac branch. The total cost of the project will exceed \$225,000, and will be completed in the next fiscal year.

NOTE 13 - UNUSUAL EVENT

In the year ended September 30, 2006, the Library received a distribution from a trust created by an estate. The total amount received was \$92,132, and is classified as a donation.

NOTE 14 - LEASES

The Library entered into a lease agreement on October 2, 2006 for space for its Clarksville branch. The lease is a ten-year agreement with monthly rent due of \$350. The monthly rent increases by 3% per year. The total amount paid in the year ended September 30, 2006 was \$0. Future lease obligations are as follows:

Year Ending September 30	Annual Rent
2007	\$ 4,200
2008	4,326
2009	4,456
2010	4,590
2011	4,727
2012	4,869
2013	5,015
2014	5,165
2015	5,320
2016	5,480

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ 220,000	\$ 220,000	\$ 238,797	\$ 18,797
State Revenue	7,350	7,350	6,459	-891
Penal Fines	66,500	66,500	83,030	16,530
Investment	4,175	4,175	16,226	12,051
Other	12,375	12,375	105,964	93,589
Transfers In	---	---	---	---
TOTAL REVENUE	310,400	310,400	450,476	140,076
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	299,400	299,400	254,192	45,208
Debt Service	---	---	---	---
Capital Outlay	11,000	11,000	9,323	1,677
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	310,400	310,400	263,515	46,885
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	186,961	186,961
BUDGETARY FUND BALANCE - OCTOBER 1, 2005	584,973	584,973	584,973	---
BUDGETARY FUND BALANCE - SEPTEMBER 30, 2006	\$ 584,973	\$ 584,973	\$ 771,934	\$ 186,961

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET

SEPTEMBER 30, 2006

	Saranac Library	Clarksville Library	Total
ASSETS			
Petty Cash	\$ 25	\$ 25	\$ 50
Cash Checking	164,662	54,528	219,190
Cash Savings	392,185	80,691	472,876
Investments	101,601	---	101,601
TOTAL ASSETS	\$ 658,473	\$ 135,244	\$ 793,717

LIABILITIES AND FUND BALANCE

LIABILITIES			
Accounts Payable	\$ 20,151	\$ 1,632	\$ 21,783
Payroll Taxes Payable	---	---	---
TOTAL LIABILITIES	20,151	1,632	21,783
FUND BALANCE	638,322	133,612	771,934
TOTAL LIABILITIES AND FUND BALANCE	\$ 658,473	\$ 135,244	\$ 793,717

SARANAC PUBLIC LIBRARY

General Fund

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 2006

	Saranac Library	Clarksville Library	Total
REVENUE			
Grants	\$ ---	\$ ---	\$ ---
Property Taxes	185,653	53,144	238,797
Donations	93,502	550	94,052
Memorials	565	50	615
Penal Fines	62,259	20,771	83,030
Daily Transactions	6,875	4,422	11,297
Investment Income	14,356	1,870	16,226
Miscellaneous	---	---	---
State Aid Grant	4,843	1,616	6,459
TOTAL REVENUE	368,053	82,423	450,476
EXPENDITURES			
Wages	92,499	31,728	124,227
Payroll Taxes	7,076	2,427	9,503
Employee Benefits	4,630	4,473	9,103
Collections/ Books	20,163	8,456	28,619
Mileage Reimbursement	1,288	552	1,840
Advertising	85	51	136
Repairs and Maintenance	18,656	857	19,513
Insurance	2,804	1,483	4,206
Supplies	2,991	1,402	4,474
Equipment Purchases	7,438	1,885	9,323
Lakeland Library Cooperative	18,082	7,281	25,363
Miscellaneous	11,241	316	11,557
Summer Reading	---	789	789
Continuing Education	906	143	1,049
Utilities and Telephone	5,877	2,464	8,341
Professional Fees	1,000	1,071	2,071
Dues and Subscriptions	550	311	861
Program Expense	2,113	427	2,540
TOTAL EXPENDITURES	197,399	66,116	263,515
EXCESS OF REVENUE OVER EXPENDITURES	170,654	16,307	186,961
BALANCE - BEGINNING OF YEAR	467,668	117,305	584,973
BALANCE - END OF YEAR	\$ 638,322	\$ 133,612	\$ 771,934

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

YEAR ENDED SEPTEMBER 30, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Grants	\$ 2,000	\$ ---	\$ -2,000
Property Taxes	170,000	185,653	15,653
Donations	200	93,502	93,302
Memorials	50	565	515
Penal Fines	50,000	62,259	12,259
Daily Transactions	5,150	6,875	1,725
Investment Income	3,500	14,356	10,856
Miscellaneous	---	---	---
State Aid Grant	5,500	4,843	-657
TOTAL REVENUE	236,400	368,053	131,653
EXPENDITURES			
Wages	102,000	92,499	9,501
Payroll Taxes	8,500	7,076	1,424
Employee Benefits	22,660	4,630	18,030
Collections/Books	21,900	20,163	1,737
Mileage Reimbursement	1,800	1,288	512
Advertising	500	85	415
Repairs and Maintenance	12,000	18,656	-6,656
Insurance	4,450	2,804	1,646
Supplies	5,400	2,991	2,409
Equipment Purchases	8,000	7,438	562
Lakeland Library Cooperative	18,500	18,082	418
Miscellaneous	15,490	11,241	4,249
Summer Reading	---	---	---
Continuing Education	2,500	906	1,594
Utilities and Telephone	7,600	5,877	1,723
Professional Fees	2,200	1,000	1,200
Dues and Subscriptions	600	550	50
Program Expense	2,300	2,113	187
TOTAL EXPENDITURES	236,400	197,399	39,001
EXCESS OF REVENUE OVER EXPENDITURES	---	170,654	170,654
BALANCE - BEGINNING OF YEAR	467,668	467,668	---
BALANCE - END OF YEAR	\$ 467,668	\$ 638,322	\$ 170,654

SARANAC PUBLIC LIBRARY

Clarksville Library

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Grants	\$ 500	\$ ---	\$ -500
Property Taxes	50,000	53,144	3,144
Donations	300	550	250
Memorials	---	50	50
Penal Fines	16,500	20,771	4,271
Daily Transactions	4,175	4,422	247
Investment Income	675	1,870	1,195
Miscellaneous	---	---	---
State Aid Grant	1,850	1,616	-234
TOTAL REVENUE	74,000	82,423	8,423
EXPENDITURES			
Wages	29,400	31,728	-2,328
Payroll Taxes	2,250	2,427	-177
Employee Benefits	5,382	4,473	909
Collections/Books	9,200	8,456	744
Mileage Reimbursement	500	552	-52
Advertising	200	51	149
Repairs and Maintenance	5,500	857	4,643
Supplies	2,100	1,483	617
Insurance	500	1,402	-902
Equipment Purchases	3,000	1,885	1,115
Lakeland Library Cooperative Program Expenses	7,500	7,281	219
Miscellaneous	250	316	-66
Summer Reading	---	789	-789
Continuing Education	500	143	357
Utilities and Telephone	2,490	2,464	26
Professional Fees	1,700	1,071	629
Dues and Subscriptions	250	311	-61
Program Expenses	3,278	427	2,851
TOTAL EXPENDITURES	74,000	66,116	7,884
EXCESS OF REVENUE OVER EXPENDITURES	---	16,307	16,307
BALANCE - BEGINNING OF YEAR	117,305	117,305	---
BALANCE - END OF YEAR	\$ 117,305	\$ 133,612	\$ 16,307

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Saranac Public Library

We have audited the general-purpose financial statements of Saranac Public Library as of and for the year ended September 30, 2006, and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Saranac Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saranac Public Library's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

October 23, 2006

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road

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(517) 937-9333 Phone / 563-2552

October 23, 2006

To the Board of Directors of
Saranac Public Library

I have recently completed the audit of the financial statements of Saranac Public Library for the year ended September 30, 2006, and would like to take this opportunity to make the following comments and recommendations.

Financial Overview

The financial position of the Library continues to be excellent. Total revenue from the two branches exceeded \$450,000. Expenses were less than \$265,000, resulting in an increase in total fund balance of over \$185,000. The Library finished the year with almost \$800,000 of available cash. The Saranac branch finished the year with over \$650,000 in the bank, and the Clarksville branch finished with \$135,000 in the bank.

Remodeling and Improvements

When I was doing the audit, the Saranac branch was in the midst of a major remodeling program, which included adding additional space. The total cost of these improvements was approximately \$225,000. These improvements should be a significant boost in the available resources offered, and also in comfort and accessibility for both your adults and children.

Lease Agreement

The Clarksville branch has entered into a new lease agreement for the next ten years. This should provide great stability, and secure the Library's presence in that community.

Thank you for the opportunity to continue to work with your Organization. Sherri Rasmus does an excellent job of maintaining the financial records. If you have questions regarding any of this information, please contact my office.

Sincerely,



Karl L. Drake, CPA